



The following are remarks prepared for delivery by David Mondragon, president and CEO, Ford Motor Company of Canada Limited at the Economic Club of Canada, in Toronto, Ontario, on September 9, 2010.

Thank you, and good afternoon.

It's great to be here today with so many industry leaders who are thinking and talking about our economy and its future.

Now, more than ever before, the decisions we're making today will significantly shape both our economy and our companies for decades to come.

As we take the pulse of the Canadian economy right now, the incoming data points have recently moderated:

- Consumer confidence edged down in August for a third consecutive monthly decline, as consumers took a more tentative view of the economic recovery
- Jobless claims have moved up slightly.
- The manufacturing PMI – an index that measures new orders, inventory levels, production, supplier deliveries and employment levels—also declined in August

Interest rate increases by the Bank of Canada, as well as slower U.S. growth and export activity, are contributing to this trend toward moderation in the economy.

And automotive industry sales are reflecting this modest weakness in the economy.

The August annualized sales rate in Canada of 1.53 million units was down 100,000 units from July and roughly unchanged from year-ago levels.

We're still calling full year industry sales up seven per cent and that seems to be on par with industry analysts.

When we look further out, to 2011, we're calling for an industry that's up just slightly – about 2% -- compared to 2010. That is slightly below the expected GDP growth in Canada.

And today's auto market is showing some surprising trends. Truck sales are booming in Canada. In August, truck sales represented 55% of the industry. This is a 10-point shift from the height of the oil crisis in 2008 when car sales accounted for 55% of auto sales in Canada.

Low fuel prices and high consumer incentives are shifting customers away from cars to trucks.

While not sustainable long term, this short term shift will carry well into 2011.

And I say it's not sustainable over the long term, because the industry has learned a very difficult lesson over the last few years.

We know that artificially inflating demand with high consumer incentives is not the way to go. We know we cannot afford to take a short-term view.

So today, we stand at the threshold of a social and economic revolution and the automotive industry is at the epicentre of three critical issues now shaping the globe:

- the economy
- energy
- And the environment.

These are serious challenges...which present great opportunity.

How we collectively answer these challenges will help determine the speed and size of our recovery... because the reality is that there cannot be a full economic recovery, in Canada or globally, without a strong, vibrant manufacturing industry.

In Canada, manufacturing represents 12 per cent of the country's overall GDP – that's a full percentage point higher than the manufacturing per cent of GDP in the US.

The strong Canadian dollar creates investment challenges for Canada as low-cost countries compete for our industries.

With the Canadian dollar forecasted to hold at or around parity with the US for the next few years it's important that the Canadian government finds ways to attract manufacturing investment to improve productivity, innovation and job creating here in Canada vs. abroad to ensure this vibrant foundation of our economy not only survives, but thrives.

This is necessary to ensure that this vibrant foundation of our economy not only survives, but thrives.

Finally, global economies must be opened up for free trade and countries like Korea that are actively pursuing free trade agreements should first be held accountable to demonstrate that their own market is open.

With an import rate of just 4%, Korea remains on the most closed automotive markets in the world.

So as a key component in this economic engine, it is imperative that the automotive industry focus not only on our own balance sheets ... but come together around a collective vision that contributes to:

- Economic growth
- Energy independence, and
- Environmental sustainability

We've learned at Ford that in a crisis, you have to commit to a vital few priorities and direct all your talent toward delivering them.

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The first thing is to deal with the economic business realities and take the decisive actions necessary to survive.

Just as importantly, you have to prepare yourself for the future by protecting and enhancing your product pipeline, repairing your balance sheet, and establishing a foundation for long-term growth.

We've learned some hard lessons during the past several years. And we've made some very tough decisions.

Our industry was too focused on keeping our plants running, without ensuring that people wanted to drive the cars and trucks we were building.

In 2009, global automotive capacity ballooned to 92 million units but global demand for vehicles sat at only 60 million units. The market simply could not support that level of capacity and this issue remains a fundamental challenge today.

Four years ago, Ford embarked on a radical transformation – it meant closing 28 plants worldwide and cutting more than 120,000 jobs globally.

It was a very difficult time, but true to our word, we managed through the economic crisis on our own terms, we financed our own way, and it was the right thing to do.

Over the past two years, we have reduced our automotive debt from \$44 billion to \$27 billion and our pre-tax operating profit in the first half of 2010 totaled \$5 billion, a \$7.5 billion improvement over the first half of 2009.

Ford is now on track to deliver solid profits in 2010 with positive automotive cash flow.

By the end of 2011, Ford expects to move to a positive net cash position...a huge turn-around in light of one of the most challenging economic and automotive environments on record.

Our vision is to be the "Most Respected Automotive Brand in the World" with great corporate reputation, world class products and strong dealer representation -- elements which create a sustainable advantage for our company.

Research shows great similarity globally, around what consumers want and expect of us. They want value, top quality, unsurpassed safety, best-in-class fuel economy and inspiring design... easy to say... hard to deliver!

Early on we made fundamental decisions that look even better today than when we made them four years ago. Ford was a global company acting regionally.

The quantum shift in our business was the decision to break down regional barriers and leverage assets globally for improved quality, efficiencies and product cadence.

We made the difficult decision to divest brands and non-core assets in order to have a laser-sharp focus on the Ford brand around the world.

We committed to producing a balanced portfolio of vehicles -- small, medium and large ... cars, utilities and trucks. With a balanced lineup and flexible plants that would be well-positioned to respond to shifting consumer demand.

We raised our standards for product excellence, which equals the best designed vehicles in the world. This sounds obvious, but in the past we had sometimes settled for being "good enough".

As we reduced our brand portfolio, we also reduced our number of nameplates globally. In the process we are clarifying and simplifying our vehicle lineup -- supporting our focus on the Ford brand.

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By 2008, we had begun to rebalance our lineup to deliver more cars and crossovers that customers increasingly wanted ... by 2011, cars and crossovers will represent about 60 percent of our overall lineup vs. just 40% only few years ago.

Ford used to sell 97 different vehicle nameplates around the world. We've recently moved to about 60 nameplates and the goal is to get that number down to around 20.

And, we are reducing the number of global platforms that we build – the basic frame of the vehicle – from 25 to 12.

These actions allow us to better leverage our economies of scale by substantially increasing our sales volume per platform.

In the next five years, we will roughly double our volume per core platform and, by 2014; all Ford vehicles competing in global segments will be common in North America, Europe, and Asia.

Our all-new Ford Focus, which will be available in Canada in early 2011, is a good example of this global platform approach. More than 80 per cent of the Focus is common in all 22 countries of the world where it is sold.

That's a one of the highest rates of commonality ever seen in our industry and truly what is needed to compete globally in today's economy.

What it means for Ford is billions in savings while delivering world class quality, safety and affordable technology for consumer's world wide all at affordable prices.

As world economies begin to emerge, global demand for oil will increase...with that, fuel prices will rise. In the not too distant future, we predict oil prices to exceed \$100 per barrel, once again shifting consumer behavior to more fuel efficient vehicles.

That's why the majority of our R&D efforts at Ford are aimed at fuel economy leadership.

Ford is committed to providing affordable fuel economy to millions of people world-wide, and we're doing that with fuel-saving technologies across a wide range of vehicles:

- Our EcoBoost engine technology, which uses direct injection and turbo-charging to deliver up to 20 percent better fuel economy and 15 percent lower emissions, will be available on 90 percent of our product nameplates by 2013.
- We expect to produce approximately 1.5 million EcoBoost engines globally by 2013, that's 200,000 more than originally planned.
- Most importantly, this technology is affordable...with payback periods as low as six months depending on driving patterns.
- Ford is already the largest domestic producer of hybrid vehicles and our Fusion Hybrid is the most fuel-efficient mid-size sedan in North America.
- We're on track to deliver an aggressive plan to bring five new electrified vehicles to market by 2012.

But while there's a lot of talk about electric vehicles, let me provide a bit of reality.

- For the next decade, internal combustion engines will continue to represent the vast majority of global demand.
- We estimate, by 2020, internal combustion engines will represent approximately 75% of global demand. Hybrids could represent 20-25% and pure battery electric vehicles could represent 1-2% of industry sales.
- From a planning standpoint, we think that hybrids will continue to be the foundation among electrified vehicles in 2020 on a global basis.

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- The reason is – first and foremost, hybrids are the most affordable. They have the smallest battery and don't require that customers have access to plugs...And they're not range-limited.
- For battery electric vehicle customers, there has to be a behaviour change. You have to charge every day and you have to think about how far you're going on each trip.
- Cost of ownership is also a huge factor. Based on today's fuel prices, average pay-back of a hybrid at today's pricing would be approximately seven years. Average payback of a pure electric vehicle can range from 10-15 years depending on incentives.
- There's also the challenge that electrical vehicles pose to our infrastructure.
- Studies show charging electric vehicles can double the daily household use of electricity. Yes, I said double. Imagine if everyone in this room went home tonight, plugged in their vehicle – that would double the demand on the grid this evening.

The question is...who is planning for that?

To commercialize electric cars in significant volumes, it will take:

- Cost-competitive technology – that means the cost of ownership has to be competitive with gasoline vehicles
- Adequate infrastructure – public, private, retail recharging infrastructure as well as vehicle-to-grid integration
- Incentives and education – at both the federal and provincial levels to encourage consumers to change well-entrenched driving behaviours
- Higher fuel prices to force consumer segmentation back to fuel efficient choices

Because of these challenges, we're still a long way from a gasoline-free transportation system.

That said; we know we cannot afford to stand still. Ford is investing nearly \$1 billion to build electric vehicles and the battery packs that power them.

We are paying close attention to the long-term trends and remain focused on bringing our global customers vehicles they want and value.

In Canada, that approach has helped to make Ford the top-selling automaker in the country for the first time in history.

But while sales crowns are certainly nice to have – it's not what's driving our actions.

Our focus must remain on building a long-term foundation for sustainable, profitable growth throughout the world.

Now, I'd like to wrap up with a famous quote by economist John Maynard Keynes, who as many of you know had no patience with economic theorists who assumed that everything would work out in the long run...in his words "in the long run we are all dead."

This statement is very appropriate for the automotive industry and for business in general. Decisions we make today will determine who wins and loses in the marketplace.

This is an inflection point – not only for the global auto industry, but also for the world economy.

Thank you.

